Pekat Group (PEKAT MK)

Expanding Solar Assets To Solidify Earnings Sustainability

	BUY (Maintained)
Share Price	RM1.29
Target Price	RM2.00
Upside	55.0%

Highlights

- Pekat recently entered into a 21-year PPA with an industrial offtaker to construct and own a 25MWac solar PV + 40MWh BESS system under the SELCO scheme, expanding its recurring revenue base.
- The group currently commands a record orderbook of RM811m across its solar, power distribution equipment and ELP divisions, reinforcing revenue visibility over 2026-27.
- Maintain BUY with a target price of RM2.00, based on 25x PE and 2026 EPS of 8.0 sen.

Analysis

- **Pekat to construct, own and operate a 25MWac solar PV + 40MWh BESS system.** Pekat Group (Pekat) has entered into a 21-year power purchase agreement (PPA) to supply renewable energy to a heavy industrial manufacturing offtaker in Kuantan, Pahang. Under this agreement, Pekat will construct, own and operate a 25MWac solar PV system coupled with a 40MWh battery energy storage system (BESS) under the self-consumption (SELCO) scheme, with commercial operation date slated for Oct 26. We expect the total EPCC cost for the project to be below RM100m, which will be accounted under the group's capex.
- **Expanding its recurring income stream.** The commissioning of this project in Oct 26 would further bolster Pekat's recurring revenue base, generating approximately RM239m in revenue over the 21-year PPA period. This complements the expected completion of the group's 29.99 MWac solar power plant in Tronoh, Perak, under the Corporate Green Power Programme scheme, which is expected to go onstream by 1H26. These assets are anticipated to be accretive towards Pekat's earnings in the long term, once full-year contributions are reflected in the P&L (beginning 2027), underpinned by their high single-digits net margins.
- **Diversified revenue base to cushion solar EPCC margin pressure.** Solar module prices are expected to trend higher to around US$0.13/W by 2Q26, following China's cancellation on value added tax (VAT) export tax rebates for photovoltaic (PV) products (from 9%), effective 1 Apr 26. We believe Pekat is well-equipped to comfortably manage the cost pressure from its solar division, reflected by the healthy order pipeline for its power distribution equipment (RM410m) and earthing and lighting protection (ELP) divisions (RM203m). This will support the group in maintaining a healthy bottom line margin of 8-9% over 2026-28.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	227.5	291.1	592.5	690.9	810.1
EBITDA	21.0	38.3	84.7	105.4	119.4
Operating profit	19.2	36.0	79.1	94.9	108.2
Net profit (rep./act.)	13.7	22.0	46.0	56.8	66.0
Net profit (adj.)	13.9	22.0	46.0	56.8	66.0
EPS	2.2	3.4	6.5	8.0	9.3
PE	59.8	37.8	19.8	16.0	13.8
P/B	6.1	4.3	2.8	1.9	1.4
EV/EBITDA	27.7	17.8	8.6	5.8	4.0
Dividend yield	0.8	0.0	1.6	1.6	1.6
Net margin	6.1	7.6	7.8	8.2	8.2
Net debt/(cash) to equity	(18.6)	18.7	22.9	(11.6)	(29.8)
Interest cover	12.1	44.3	11.1	16.9	26.3
ROE	10.2	11.3	14.2	11.9	10.3
Consensus net profit	-	-	45.5	55.2	67.8
UOBKH/Consensus (x)	-	-	1.0	1.0	1.0

Source: Pekat, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Industrials
Bloomberg ticker	PEKAT MK
Shares issued (m)	706.3
Market cap (RMm)	911.1
Market cap (US$m)	230.7
3-mth avg daily t'over (US$m)	0.4

Price Performance (%)

52-week high/low				RM1.90/RM1.02
1mth	3mth	6mth	1yr	YTD
(24.1)	(25.4)	(14.0)	11.2	(18.4)

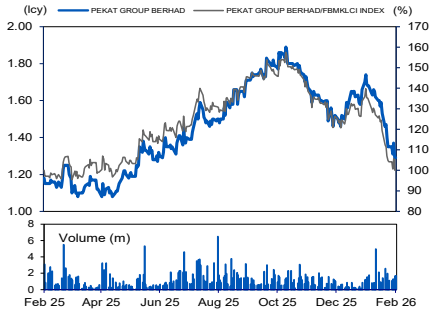
Major Shareholders %

Chin Soo Mau	31.9
Tai Yee Chee	8.0
Wee Chek Aik	6.8

Balance Sheet Metrics %

FY25F NAV/Share (RM)	0.34
FY25F Net Debt/Share (RM	0.24

Price Chart



Source: Bloomberg

Company Description

An established solar PV and earthing & lightning protection solutions provider based in Malaysia.

- **RM113.3m switchgear contract by TNB solidifies healthy revenue contributions over 2026-27.** To start off 2026, Pekat's 60%-owned subsidiary, EPE Switchgear was awarded a contract for the supply of 11kV motorised ring main units with interconnector and remote-control box of various configurations. The total value of the project is estimated to be approximately RM113.31m (38% of existing EPE Switchgear's orderbook). We expect the newly-awarded switchgear contract to contribute positively over a two-year period, with project execution to commence immediately. However, despite carrying higher margins compared with solar PV EPCC contracts, the bottom line contributions would be apportioned based on Pekat's 60% stake.
- **A robust orderbook of RM811m.** Pekat currently commands a record orderbook of RM811m across the solar, power distribution equipment (EPE Switchgear) and ELP divisions. The group reiterated bright prospects for 2026, highlighting: a) strong earnings visibility and a burgeoning orderbook in the solar segment, b) higher orderbook in the ELP segment, c) profit margin expansion driven by positive operating leverage from increased revenue contributions from EPE Switchgear as well as the solar and ELP divisions, and d) elevated EPCC jobs from LSS6 and C&I projects under Solar ATAP and off-grid projects in Sabah and Sarawak under Budget 2026.

Valuation/Recommendation

- **Maintain BUY with a target price of RM2.00.** We peg our fair value to 25x (+1SD from mean PE) and 2026 EPS of 8.0 sen, considering bright prospects for Pekat with a commendable three-year (2024-27) earnings CAGR of 44%.
- Pekat remains our top renewable energy pick for its robust orderbook of RM811m and full-year consolidation of 60%-owned EPE Switchgear. Importantly, we expect Pekat to demonstrate the capability to pull away from competition with its strong execution track record and stellar cost management.

Earnings Revision/Risk

- No changes to earnings.

Environmental, Social, Governance (ESG)

Environmental

- Pekat installed solar PV systems with a cumulative capacity of 203.2MWp for its customers in 2024, resulting in an impressive estimated reduction of 199,319 tonnes of carbon dioxide emissions.

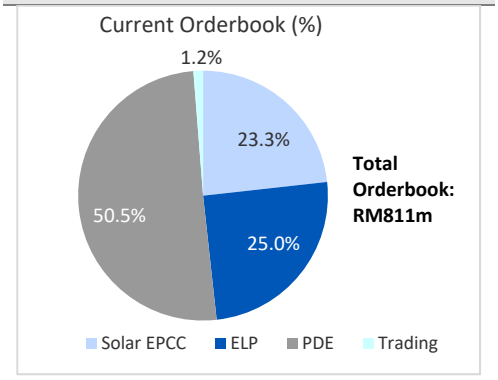
Social

- Pekat is dedicated to advancing workforce diversity and equity. As at end-24, Pekat employed 309 individuals from various backgrounds, with male staff making up 69% of the company's total workforce and female staff making up the remaining 31%.
- Pekat provided a total contribution of RM30,000 in financial aid and non-financial resources to NGOs, educational institutions, and children's welfare homes in 2024.

Governance

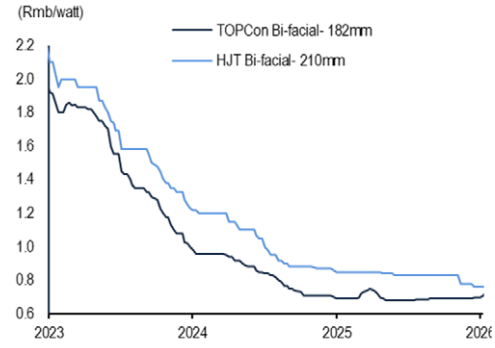
- The board comprises six members consisting of four Independent Directors and two Non-Independent Directors including GCEO. Meanwhile, women comprise 33% (two directors) of the board.

Current Orderbook



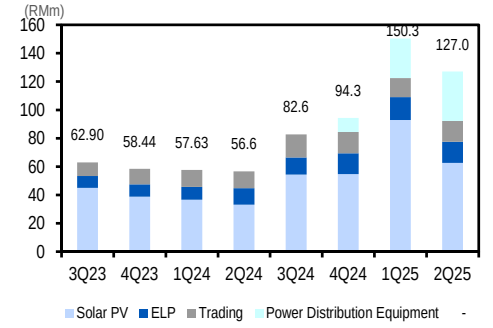
Source: Pekat, UOB Kay Hian

Solar Module Prices



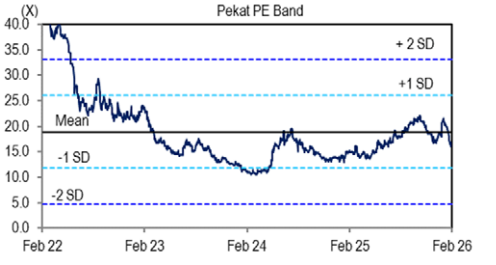
Source: Infolink, UOB Kay Hian

Quarterly Revenue Breakdown



Source: Pekat, UOB Kay Hian

PE Band



Source: Pekat, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	291.1	592.5	690.9	810.1
EBITDA	38.3	84.7	105.4	119.4
Deprec. & amort.	(2.3)	(5.6)	(10.6)	(11.1)
EBIT	36.0	79.1	94.9	108.2
Associate contributions	(0.6)	(0.8)	(1.1)	(1.5)
Net interest income/(expense)	(0.8)	(7.1)	(5.6)	(4.1)
Pre-tax profit	34.6	71.1	88.1	102.6
Tax	(11.8)	(17.1)	(21.1)	(24.6)
Minorities	(0.7)	(8.1)	(10.1)	(11.9)
Net profit	22.0	46.0	56.8	66.0
Net profit (adj.)	22.0	46.0	56.8	66.0

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	67.5	120.5	117.8	115.8
Other LT assets	61.4	59.6	58.9	58.1
Cash/ST investment	38.2	28.2	130.1	249.6
Other current assets	251.5	489.6	558.3	644.6
Total assets	418.7	697.9	865.0	1,068.1
ST debt	38.1	39.6	29.0	22.5
Other current liabilities	126.5	250.4	290.7	345.3
LT debt	36.6	62.6	45.9	35.6
Other LT liabilities	22.1	22.1	22.1	22.1
Shareholders' equity	195.4	323.2	477.4	642.6
Minority interest	43.7	55.0	66.9	0.0
Total liabilities & equity	418.7	697.9	865.0	1,068.1

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	15.1	(46.6)	55.9	63.1
Pre-tax profit	34.6	71.1	88.1	102.6
Tax	(9.6)	(17.1)	(21.1)	(24.6)
Deprec. & amort.	2.3	5.6	10.6	11.1
Associates	0.6	0.8	1.1	1.5
Working capital changes	(12.8)	(114.2)	(28.4)	(31.6)
Non-cash items	0.1	7.1	5.6	4.1
Investing	(76.9)	(69.7)	(6.9)	(8.6)
Capex (growth)	(6.9)	(69.7)	(6.9)	(8.6)
Investments	(70.0)	0.0	0.0	0.0
Financing	72.1	106.3	52.9	65.0
Dividend payments	0.0	(14.1)	(14.1)	(14.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	71.3	127.5	72.7	83.2
Others/interest paid	0.8	(7.1)	(5.6)	(4.1)
Net cash inflow (outflow)	10.4	(10.0)	101.9	119.6
Beginning cash & cash equivalent	23.9	34.3	24.3	126.1
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	34.3	24.3	126.1	245.7

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	13.1	14.3	15.3	14.7
Pre-tax margin	11.9	12.0	12.8	12.7
Net margin	7.6	7.8	8.2	8.2
ROA	11.3	14.2	11.9	10.3
ROE	5.3	6.6	6.6	6.2
Growth				
Turnover	28.0	103.5	16.6	17.3
EBITDA	87.8	119.7	19.9	14.1
Pre-tax profit	90.5	105.8	23.8	16.4
Net profit	60.5	108.7	23.6	16.2
Net profit (adj.)	58.3	108.7	23.6	16.2
EPS	58.3	108.7	23.6	16.2
Leverage				
Debt to total capital	0.3	0.3	0.1	0.1
Debt to equity	38.2	31.6	15.7	9.0
Net debt/(cash) to equity	18.7	22.9	(11.6)	(29.8)
Interest cover (x)	44.3	11.1	16.9	26.3

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